



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

March 15, 2000

S. 2097

Launching Our Communities' Access to Local Television Act of 2000

*As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs
on March 8, 2000*

SUMMARY

S. 2097 would establish a loan guarantee program for certain companies to provide local television service to areas of the country that do not receive local television stations from satellite companies. The bill would authorize the Administrator of the Rural Utilities Service (RUS) at the Department of Agriculture to guarantee up to 80 percent of private loans authorized to be made to qualified borrowers. The bill would authorize the appropriation of amounts necessary for the costs of the loan guarantees for up to \$1.25 billion of private borrowing, and associated administrative expenses. Qualifying loans would be payable in full within the lesser of 25 years or the useful life of the assets purchased. The authority to guarantee loans would be contingent upon future appropriation action and would expire on December 31, 2006.

CBO estimates that implementing S. 2097 would cost about \$265 million for loan subsidy and administrative costs over the 2000-2005 period, assuming appropriation of the necessary amounts. S. 2097 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply. S. 2097 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For the purpose of this estimate, CBO assumes that S. 2097 will be enacted in fiscal year 2000 and that funds will be provided for its implementation each year. The estimated budgetary impact of S. 2097 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	5	252	2	2	2	2
Estimated Outlays	2	167	90	2	2	2

BASIS OF ESTIMATE

Under procedures established by the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the estimated long-term cost to the government, calculated on a net present value basis (excluding administrative costs). We estimate that the loan guarantees provided under the bill would cost about 20 percent of the total amount borrowed—or \$250 million, subject to the availability of appropriated funds. In addition, CBO estimates that administering the program would cost about \$5 million in 2000 and about \$2 million in each subsequent year. The bill would authorize the Secretary of Agriculture to charge fees, which could offset some of the subsidy or administrative costs, but this estimate assumes no fees would be charged.

To prepare this estimate, CBO consulted with industry experts and investment analysts and examined the credit ratings of firms in the satellite television and related industries. The information on credit ratings is useful because different credit ratings reflect analysts' expectations of defaults. Based on this information, we assume that the rural television loans likely to be guaranteed under this bill would have a credit risk comparable to debt rated as "B" or "CCC," which typically have default rates ranging from about 30 percent to 45 percent, respectively.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2097 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On March 1, 2000, CBO transmitted a cost estimate for H.R. 3615, the Rural Local Broadcast Signal Act, as ordered reported by the House Committee on Agriculture on February 16, 2000. That bill would authorize the RUS to guarantee 100 percent of the value of loans made for this purpose—up to \$1.25 billion in private borrowing. It also would allow the government's guarantee to be subordinate to third-party-financing. CBO estimated that implementing H.R. 3615 would cost \$365 million over the 2000-2005 period, subject to the availability of appropriated funds. The lower estimated cost for S. 2097 reflects the lower federal risk associated with an 80-percent guarantee level and the fact that the government's guarantee would not be subordinate.

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